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UNCLAS LILONGWE 000128

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STATE FOR AF/S ADRIENNE GALANEK
STATE FOR EB/IFD/OMA FRANCES CHISHOLM
STATE FOR EB/IFD/ODF LINDA SPECHT
TREASURY FOR INTERNATIONAL AFFAIRS/AFRICA/LUKAS KOHLER
JOHANNESBURG FOR FCS

E.O. 12958: N/A

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SUBJECT: MALAWI CONSIDERS NEW DEVELOPMENT AGENDA

REF: LILONGWE 107

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1. (SBU) As Malawi's Poverty Reduction Strategy Paper (PRSP) reaches the end of its three-year life, the GOM has floated the idea of taking a new tack as it develops its next PRSP. The proposed new agenda would be based on the Malawi Economic Growth Strategy, essentially a plan for removing constraints for new private sector investment. This plan would direct Malawi's development efforts more toward economic growth than does the current PRSP, which emphasized pro-poor social spending.

2. (SBU) The idea was originally presented in December to a select few donors as a crash plan to be developed over a short time, with a completion date in March 2005. The donor community raised several disparate concerns: a fear that the new agenda would not be carefully enough thought out by the self-imposed deadline, that a new agenda would represent a base-level restart on the current Malawi Economic Growth Strategy (MEGS), that the plan would redirect social spending to pro-growth spending, and that a "public investment" component of the plan might include heavy spending on new state enterprises. Since December, we have heard an additional concern: that the MEGS is incomplete, in effect addressing investment constraints but ignoring other aspects necessary to a national economic plan. As well, some donors considered that a sharp turn away from the approved PRSP could endanger Malawi's Highly Indebted Poor Country (HIPC) status. In the end, several bilateral donors have urged a go-slow approach to adoption of any changes to the current PRSP.

3. (SBU) While concerns about the quality of the economic growth strategy are well-founded, so too are concerns that the administration needs to show rapid progress in order to maintain public support. In any case, the GOM's growth strategy, however imperfect, should be reflected in its PRSP. As for Malawi's HIPC status, the International Monetary Fund's Resident Representative and the World Bank Country Director have told us that the proposed new agenda poses no danger, partly because the new growth component is to be financed separately from currently defined PRSP spending. The GOM envisions financing the growth agenda with the savings from restructured debt and more efficient revenue collection.

4. (SBU) COMMENT: Embassy is concerned that the negative reaction to what was perhaps an over-hasty plan may be misinterpreted as a signal to back away from an economic growth agenda altogether. Indeed, there is reason to believe that at least some donors are not inclined to favor any developmental approach other than social spending. We have encouraged the GOM to move forward with the proposed inclusion of the growth strategy into the PRSP, making improvements to the growth strategy as needed. After President Mutharika's recent show of support for privatization, we now consider a state-centric approach unlikely (reftel). President Mutharika is currently enjoying good political support for a reform agenda, but that support cannot last forever. We believe Malawi will be best served by early adoption of a PRSP that reflects its new priorities, rather than spending the next year to arrive at the perfect plan.

GILMOUR